

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 USIA-15 /106 W

----- 079646

R 181944Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0368

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 05953

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 18

BEGIN SUMMARY: WITH A BACKDROP OF ACCELERATING WAGES AND PRICES, AND STAGNATING OUTPUT, CHANCELLOR HEALEY PRESENT- UNCLASSIFIED

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ED HIS BUDGET APRIL 15. IT IS A MILDLY DEFLATIONARY BUD-

GET DESIGNED TO REDUCE THE INFLATION RATE AND FURTHER THE GOVERNMENT'S ECONOMIC STRATEGY OF INDUCING RESOURCES TO MOVE TO THE EXTERNAL SECTOR AND INTO INVESTMENT. WHETHER IT WILL SUCCEED DEPENDS ON UNION REACTIONS TO IT, AND ON A RESURGENCE OF WORLD TRADE NEXT YEAR. IT HAS FURTHER OFFENDED MANY OF THE UNIONS AND THE LEFT-WING OF THE LABOR PARTY AND COULD COMPLICATE POLITICAL ISSUES.

THE STOCK MARKET REACTED BY SOARING TO ITS HIGHEST LEVEL SINCE THE END OF 1973. STERLING STRENGTHENED AGAINST THE DOLLAR BUT THE TRADE-WEIGHTED DEPRECIATION WIDENED SLIGHTLY. END SUMMARY

1. BUDGET. INCREASES IN PERSONAL DIRECT AND INDIRECT TAXES WERE THE MAIN IMMEDIATE FEATURE OF THE MILDLY DEFILATIONARY BUDGET. PUBLIC SPENDING CUTS WERE PROMISED FOR NEXT FISCAL YEAR. THE CHANCELLOR INTENDS TO FIGHT INFLATION WITH THE BUDGET THROUGH RESTRAINING CONSUMPTION AND REDUCING THE GROWTH OF THE PUBLIC SECTOR DEFICIT AND FORECAST AN UNEMPLOYMENT RATE OF 4 PERCENT BY THE END OF 1975. HE INTENDS TO KEEP A TIGHT REIN ON MONETARY GROWTH. THE BUDGET ALSO OFFERED SOME FURTHER INVESTMENT INCENTIVES THROUGH SUBSIDIES AND THE PRICE CODE WHICH ARE DIRECTED EQUALLY AT THE EXTERNAL SECTOR, AND IT PROPOSED A NEW EXPORT CREDIT GUARANTEE SCHEME FOR WHICH NO DETAILS ARE YET KNOWN. THUS, THE BUDGET WILL ALSO SERVE THE GOVERNMENT'S STRATEGY OF LIMITING CONSUMPTION GROWTH AND INDUCING THE MOVEMENT OF RESOURCES TO THE EXTERNAL SECTOR AND TO INVESTMENT. FOR DETAILS SEE LONDON 5726, 5725, 5727.

2. WAGE RATES. THE INDEX OF HOURLY WAGE RATES JUMPED BY 3.9 PERCENT IN MARCH BRINGING THE TOTAL INCREASE FOR THE PAST 12 MONTHS TO 32.5 PERCENT. EARNINGS FOR FEBRUARY SHOWED A 1.9 PERCENT INCREASE.

FOR WAGES, THE INDEX NUMBER IN MARCH IS 166.8 UP FROM 160.6 IN FEBRUARY (S.A., JULY 1972 EQUALS 100). THE MARCH 1974 NUMBER WAS 125.9. THE EARNING INDEX NUMBER IS 210.0 FOR FEBRUARY AS COMPARED TO 206.0 IN JANUARY (JULY 1972 EQUALS 100, S.A.). FEBRUARY 1974 EQUALED 156.8.

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3. RETAIL PRICES. THE RETAIL PRICE INDEX ROSE BY 2 PERCENT IN MARCH. THE INDEX NUMBER IN MARCH IS 124.3 COMPARED TO 121.9 IN FEBRUARY (JANUARY 1974 EQUALS 100). ON A YEAR THE INDEX HAS NOW RISEN BY 21.2 PERCENT.

4. WHOLESALE PRICES. THE OUTPUT WHOLESALE PRICE INDEX (DOMESTIC GOODS EX-FACTORY) FOR MARCH ROSE BY 1.5 PERCENT

FROM 175.5 IN FEBRUARY TO 178.2 (1970 EQUALS 100). THIS INDEX NOW SHOWS A 25.25 PERCENT ROSE OVER THE PAST YEAR. THE INPUT WHOLESALE PRICE INDEX (FUELS AND RAW MATERIALS) INCREASED BY 1.7 PERCENT IN MARCH, FROM 218.1 TO 221.8. THE BULK OF THIS ANOMOLOUSLY LARGE INCREASE COMES FROM HIGHER COAL PRICES, AND OVER THE PAST YEAR THIS INDEX NOW SHOWS ONLY A 3.25 PERCENT RISE.

5. INDUSTRIAL PRODUCTION. THE INDEX OF INDUSTRIAL PRODUCTION FOR FEBRUARY SHOWED NO GROWTH. THE PROVISIONAL INDEX NUMBER FOR FEBRUARY FOR ALL INDUSTRIES IS 105.3 (1970 EQUALS 100), COMPARED WITH 105.2 FOR JANUARY, 105.4 FOR THE 4TH QUARTER OF 1974, AND 108.6 FOR 3RD QUARTER 1974.

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PASS TREASURY/FRB

THE MANUFACTURING INDEX FOR FEBRUARY WAS 106.4; PREVIOUS FIGURES: 107.2 IN JANUARY, 106.2 IN 1974/IV, 110.2 IN 1974/III.

6. TRADE. THE UK SHOWED AN UNEXPECTED CURRENT ACCOUNT SURPLUS IN MARCH DUE TO TECHNICAL FACTORS. FOR THE MONTH UNCLASSIFIED

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THE OIL BALANCE SHOWED A 206 MILLION POUND DEFICIT WHILE THE NON-OIL TRADE ACCOUNT WAS IN SURPLUS BY 100 MILLION POUNDS AND THE INVISIBLE/SERVICE ACCOUNT SHOWED ITS USUAL 120 MILLION POUND SURPLUS. WHILE THE TRENDS IN BOTH THE OIL AND NON-OIL ACCOUNTS HAVE BEEN IMPROVING LATELY, THE MARCH SURPLUS WAS ASCRIBED TO THE LONDON DOCKERS STRIKE AND FISHERMEN'S BLOCKADE OF SOME BRITISH PORTS WHICH AFFECTED IMPORTS MORE THAN EXPORTS. SEE LONDON 5641 FOR DETAILS.

7. CONSUMER SPENDING. DESPITE THE SAGGING REAL INCOME/OUTPUT FIGURES, CONSUMERS SPENDING CONTINUES LEVEL IN REAL TERMS. PRELIMINARY FIGURES FOR THE FIRST QUARTER OF 1975 INDICATE AN 0.3 PERCENT RISE OVER THE FOURTH QUARTER OF AND EARNINGS.

8. HOUSING. PRELIMINARY FIGURES INDICATE A SLIGHT GAIN IN PRIVATE HOUSING STARTS IN FEBRUARY BUT THEY ARE STILL WELL DOWN ON A YEAR AGO.

9. EXCHANGE RATE AND GOLD:

	4/10	4/17	CHANGE
EXCHANGE RATE	\$2.3625	\$2.3705	UP \$0.0080
EFFECTIVE DEPRECIATION			
(PERCENT)	21.9	22.0	UP 0.1
GOLD	\$172.50	\$168.50	DOWN \$4.00

10. FORWARD DISCOUNT ON STERLING:

	4/10	4/17	CHANGE
1 MONTH	1.05	0.82	DOWN 0.23
3 MONTHS	2.95	2.75	DOWN 0.20
6 MONTHS	5.95	5.75	DOWN 0.20

(ALL FIGURES IN CENTS)

11.EURODOLLAR INTEREST RATES:

	4/10	4/17	CHANGE
1 MONTH	6-1/4	6	DOWN 1/4
3 MONTHS	7-1/8	6-7/8	DOWN 1/4
6 MONTHS	8-1/8	7-7/8	DOWN 1/4

12.LOCAL AUTHORITY DEPOSIT RATES:

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	4/10	4/17	CHANGE
1 MONTH	8-15/16	9-1/8	UP 3/16
3 MONTHS	9-9/16	9-9/16	UNCHANGED
6 MONTHS	9-15/16	9-15/16	UNCHANGED

13.THE MINIMUM LENDING RATE FELL TO 9-3/4 PERCENT FROM
10 PERCENT ON FRIDAY, APRIL 18, 1975.

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Disposition Approved on Date:
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TAGS: ECON, UK
To: STATE
Type: TE
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